

HOUSING MARKET OUTLOOK

Greater Sudbury CMA



Canada Mortgage and Housing Corporation

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New Home Market

Sudbury Starts to Match Demographic Requirements

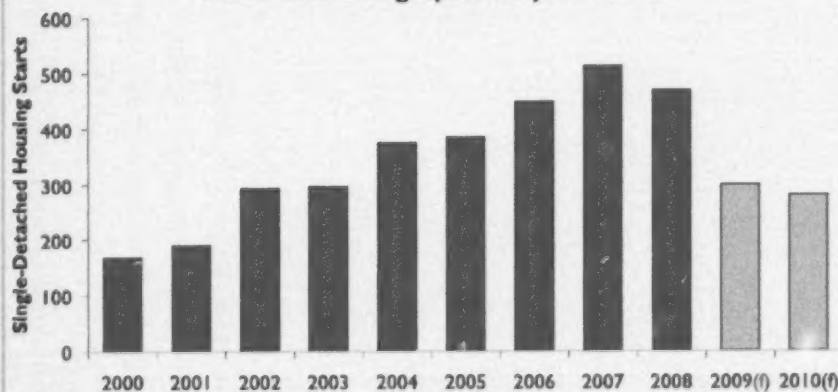
After seven consecutive years of housing starts increases and a near record year in 2008, the new home market will pause in 2009. The New Home Market is poised to see levels become more aligned with long term demographic demand due to slowing

job growth, slower migration, and the rapid transition to buyer's market. CMHC is forecasting only 300 single-detached starts, 20 semi-detached units and 100 apartment rental units for a total of 420 Greater Sudbury starts in 2009. Total starts will soften slightly in 2010.

The mining sector led all subsectors of the Ontario goods producing industry

Figure 1

Sudbury Single-Detached Home Starts to Match Demographic Requirements



Source: CMHC

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in job growth in 2007 and 2008. But rapidly deteriorating commodity prices have brought unemployment uncertainty to those associated with base metal mining operations in the Greater Sudbury area. The linkages between the mining sector and diverse segments of the services sector have brought similar uncertainty to those employed in services. The spillover effect from the existing home market into the new home market has slowed given rising resale market inventories. In fact Sudbury's resale market has quickly shifted from a seller's to a buyer's market state.

As employment growth decelerates in the Sudbury mining industry, immigration as the main force of homeownership demand will slow down as well. The Sudbury mining industry is one of the oldest and most active in the world and remains the most important engine of economic activity in the city of Greater Sudbury. The mines' location relative to such a significant urban centre is unique as well which magnifies its influence on the local economy.

The Statistics Canada New Housing Price Index for Sudbury-Thunder Bay is reflecting strong demand for land and labour associated with the recent housing boom. Flat for several years, the index jumped 4.3 per cent in 2007 and 5.5 per cent in 2008. Demand pressures will ease and will dampen growth in new home prices in 2009.

The increasing number of unsold units at completion is a sign of the softening new home construction market in Sudbury. CMHC's Starts and Completions survey revealed the highest level of newly completed unsold units in the first quarter since 1996.

Resale Market

Sudbury Resale Market Eases

The seventh consecutive quarter of year-over-year sales declines is now behind us with more softening expected to be seen until year end. After registering 2,400 existing home sales in 2008 in Greater Sudbury, CMHC is expecting a 35 per cent decline in 2009 and only modest improvement in 2010 as homes become more affordable. The resale market has rapidly gone from a seller's position with strong price increases to that of a buyer's market, where it will remain for the rest of the year. Reasons for the resale market easing include a slowing economy brought on by the downturn in commodity prices and corresponding slower job growth.

After two consecutive years of new listings declines, in 2008 new listings rose 26 per cent and thus far in 2009 new listings rose another ten

per cent year-over-year. Listings should end the year up ten per cent. As a result, the ratio Sales/New Listings, which predicts the market's temperature, will moderate further, supporting softening prices over the course of 2009.

Average resale home prices fell 7.3 per cent year-over-year in the first quarter after a near record 21.3 per cent year-over-year increase in 2007. This rapid turnaround in prices underlines how quickly the market has turned in Greater Sudbury. We expect prices to finish the year off 6.9 per cent in 2009 and continue easing, albeit at a more modest pace, in 2010. Price range analysis of resale market data shows that demand is weak across all ranges in the Sudbury market.

A cursory analysis of March MLS sales for the past four years shows sales declining from last year over \$250,000 as a percentage of total sales over \$120,000. There was a corresponding increase in sales between \$120,000 and \$250,000 as a percentage of all sales over \$120,000.

Figure 2

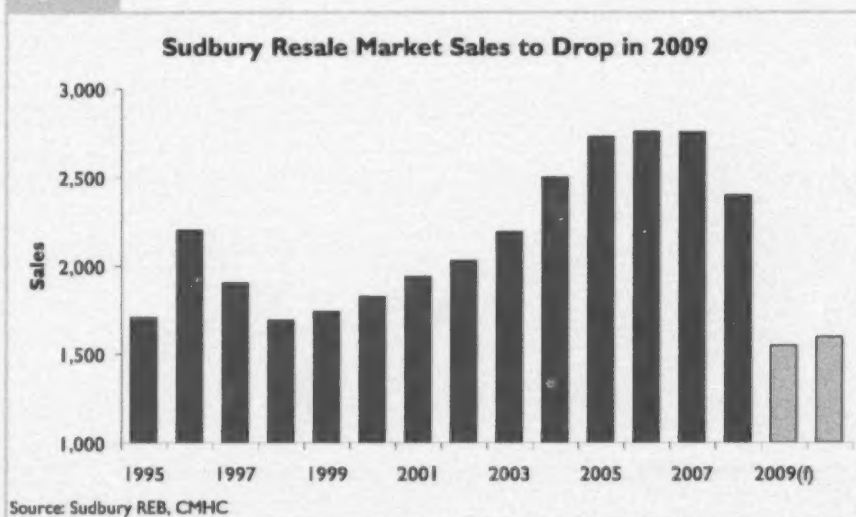
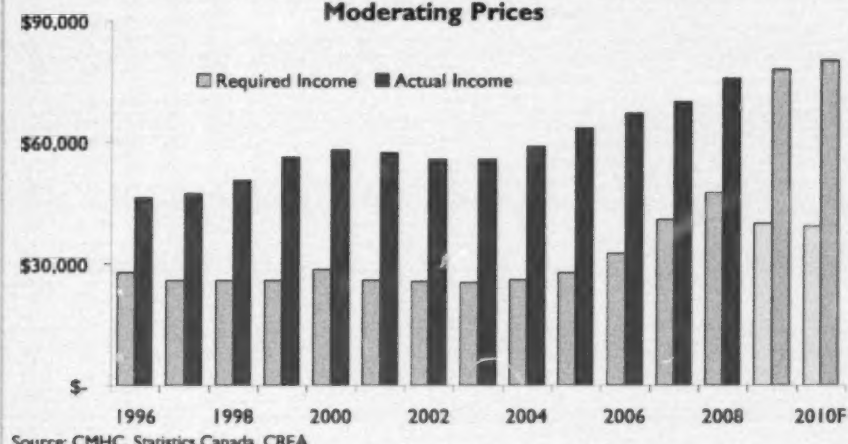


Figure 3

Sudbury's Required Income to Buy a Home Falls with Moderating Prices



Source: CMHC, Statistics Canada, CREA

employment bracket for homeownership this year, the 25-44 age group will continue holding its own with regards to growth while the lowest (15-24) and highest (45-64) will keep showing weakness.

Elsewhere in the Greater Sudbury economy, plans for Laurentian University's Centre for Excellence in Mining and a Northern Ontario School of Architecture continue moving forward while construction continues at the Regional Hospital.

Positive In-Migration to Sudbury for Five Years Running

For the fifth consecutive year, net migration figures released by Statistics Canada in September 2008, showed an inflow to Greater Sudbury. Sudbury's population grew by nearly 3,000 or 1.7 per cent between 2001 and 2006, aided in large measure by migration inflows. About 2900 people left Sudbury in 1998-99 but nearly 2,300 arrived in the five years ending in 2007, the majority coming from elsewhere in Northern Ontario. Net-migration numbers will be challenged by the economic slowdown but should remain in positive territory for the foreseeable future especially as growth prospects in the Western Canada temper migratory outflows to the west.

Local Economy

Sudbury Employment Growth Will Slow Down in the Future

Employment growth in Greater Sudbury slowed significantly in 2008 to 0.5 per cent after an above average 3.9 per cent growth in 2007. Nickel prices are off sixty per cent from this time last year and with demand for stainless steel languishing, prices are not expected to pick up appreciably in 2009. The medium to long term prognosis for Sudbury's two nickel producers, Vale-Inco and Xstrata is still positive but both companies are experiencing hardships presently. Although goods producing sector employment was slow to react downwards, it will

continue adjusting to lower levels.

Weakness in the mining sector will weigh on business investment and will dampen domestic demand this year. Weakness in domestic demand is starting to spill over into the services producing sector. CMHC expects overall employment losses of 1,000 jobs in 2009 and a modest rebound in 2010 as commodity prices stabilize. The labour negotiations at Vale Inco are ongoing and represent a key wild card in determining the health of the economy over the next six to twelve months.

Sluggish labour market will weigh on income growth in the Sudbury area with average weekly earnings expected to rise a modest 2.5 per cent in 2009. Nevertheless, CMHC predicts that the most important age

Figure 4



Mortgage Rates

Mortgage rates are expected to be relatively stable throughout 2009, remaining within 25-75 basis points of their current levels. Posted mortgage rates will increase very gradually during the course of 2010, reflecting a rise in government of Canada bond yields. For 2010, the one year posted mortgage rate will be in the 4.75-6.00 per cent range, while three and five year posted mortgage rates are forecast to be in the 5.00-6.75 per cent range.

Forecast Summary Greater Sudbury CMA Spring 2009							
	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	2,762	2,754	2,751	1,550	-43.7	1,600	3.2
MLS® New Listings	3,989	3,834	4,829	5,312	10.0	5,710	7.5
MLS® Average Price (\$)	150,434	182,536	182,502	197,000	7.9	188,000	-4.6
New Home Market							
Starts:							
Single-Detached	448	514	469	300	-36.0	280	-6.7
Multiples	29	73	74	120	62.2	120	0.0
Semi-Detached	18	28	32	20	-37.5	20	0.0
Row/Townhouse	11	37	19	0	n/a	0	n/a
Apartments	0	8	23	100	n/a	100	250.0
Starts - Total	477	587	543	420	-22.7	400	-4.8
Average Price (\$):							
Single-Detached	266,695	307,314	336,847	338,045	0.4	340,000	0.6
Median Price (\$):							
Single-Detached	269,000	289,000	322,450	306,340	-5.0	300,000	-2.1
New Housing Price Index (% chg) (Thunder Bay-Sudbury)	1.7	4.3	5.5	1.5	-	2.0	-
Rental Market							
October Vacancy Rate (%)	1.2	0.6	0.7	1.0	0.3	0.9	-0.1
Two-bedroom Average Rent (October) (\$)	706	749	800	840	-	880	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.80	-1.90	5.29	0.49
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.64	-1.42	5.94	0.30
Annual Employment Level	77,800	80,800	81,300	80,300	-1.2	80,700	0.5
Employment Growth (%)	1.5	3.9	0.5		-1.2		0.5
Unemployment rate (%)	7.3	5.8	5.6	8.2	-	8.3	-
Net Migration ⁽¹⁾	836	412	500	350	-30.0	200 **	

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) 2007 and 2008 migration numbers are forecasts

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